

## EXECUTIVE SECRETARIAT

## Routing Slip

TO:

		ACTION	INFO	DATE	INITIAL
1	DCI		<i>has seen</i>		
2	DDCI		✓		
3	EXDIR		✓		
4	D/ICS				
5	DDI		✓		
6	DDA		✓		
7	DDO		✓		
8	DDS&T		✓		
9	Chm/NIC		✓		
10	GC				
11	IG				
12	Compt				
13	D/EEO				
14	D/Pers				
15	D/OEA				
16	C/PAD/OEA				
17	SA/IA				
18	AO/DCI				
19	C/IPD/OIS				
20					
21					
22					

SUSPENSE \_\_\_\_\_ Date \_\_\_\_\_

Remarks:

*DBL*  
Executive Secretary

*11/16/82*  
Date

2637 (10-81)

NSC review completed.

**CONFIDENTIAL****URGENT**

MEMORANDUM

7749 Redo

CONFIDENTIAL

THE WHITE HOUSE

Executive Registry

WASHINGTON

82-13052

November 13, 1982

15 NOV 1982

MEMORANDUM FOR SENIOR ADMINISTRATION OFFICIALS

FROM:

WILLIAM P. CLARK *wpc*

SUBJECT:

East-West Economic Relations and Poland-related Sanctions (U)

The President has consistently stated that he would not conduct "business as usual" for as long as the Soviet Union continues its policies of oppression. This is particularly important at a time when the Soviet Union has been receiving preferential and subsidized terms of trade from the West for more than a decade and taken strategic advantage of the legal and illegal import of Western high technology purchased with hard currency earned primarily through the export of energy resources to Western Europe. (U)

Well before the events in Poland the President was seriously concerned about overall East-West economic relations. He expressed this concern forcefully at the July, 1981 Economic Summit. For more than a year after that meeting and continuing through the Versailles and Bonn Summits, the President made extensive efforts to persuade our Allies to forge with us a common security-minded approach to trade with the East, emphasizing the development of Western alternatives to increased purchases of Soviet gas, tightened controls on the transfer of high technology and an end to subsidized and preferential credit terms. The Rashish mission in the fall of 1981 (before martial law was declared in Poland) and the Buckley mission in the spring of 1982 (after martial law) are both examples of this effort. The widely differing perceptions on East-West trade between the Allies and the U.S., however, precluded an accord at that time just as it eluded the past Administration. (U)

The President's opposition to the Siberian pipeline also pre-dated events in Poland by more than six months and has been based on legitimate and pressing security concerns. By 1990 the Soviet share of total continental European gas consumption will be about 30%. Regional dependency figures, however, could run substantially higher. Bavaria, West Germany, for example, is presently over 90% dependent on natural gas supplies from the Soviet Union, and at present the region does not have sufficient interlocking connections with the European gas grid to enable it to offset the loss of Soviet gas by imports from other sources. By 1995, the addition of a second strand of the Siberian gas pipeline project would increase the Soviet share of continental European gas supplies to about 45%. (U)

CONFIDENTIAL

C112

**CONFIDENTIAL**

2

**CONFIDENTIAL**

At the same time that he announced these actions, the President put President Brezhnev publicly on notice that sustained repression would compel him to implement additional measures against the USSR. It became apparent during the spring of 1982 that the Allies were not ready to share the burden of this human rights effort. Meanwhile, repression continued in Poland. On June 18, the President decided as a matter of principle on the unilateral application of extraterritorial controls on oil and gas equipment and technology, which had the effect of further hampering progress on the pipeline. In addition, it corrected the inequity of the December measures in an effort to protect American firms from the continued loss of business to foreign competitors. (U)

Although the June 18 decision was harshly criticized, there is no question that it was only after this decision that the Allies realized the strength of the President's principles and determination and began in earnest the consultation process on East-West economic relations with Secretary Shultz from which this historic agreement has emerged. (U)

The translation of our unilateral controls into an enduring multilateral framework agreement on East-West economic policy certainly constitutes the "more effective" set of measures required by the President to lift our sanctions. The enduring repression in Poland has catalyzed and has evoked an enduring and unified allied policy on East-West trade relations in a security context. The President's leadership was indispensable to this achievement. The benefits derived by the U.S. from this trade-off are numerous and include the following:

-- It represents the first comprehensive allied framework agreement on East-West economic relations in a security context.

-- It sets out security-minded principles which will govern East-West trade for the remainder of this decade and beyond.

-- It commits the Allies to immediate actions including:

1) strengthening the effectiveness of controls on high technology transfer to the USSR. COCOM meetings last month have made a solid start on tightened controls on military technology. The Allies have agreed to go further than before in agreeing on multilateral controls on other high technology items, including critical oil and gas equipment and technology. (U)

2) working urgently to harmonize export credit policies. The language of the agreement goes well beyond Versailles. Last summer OECD raised interest rates for the USSR from approximately 8.0 to 12.5% largely as a result of U.S. pressure. The end of subsidies is outlined as a specific objective. (U)

**CONFIDENTIAL**

DECLASSIFY ON: OADR

**CONFIDENTIAL**

**CONFIDENTIAL**CONFIDENTIAL

3

3) no new contracts for purchase of Soviet gas during the study on Western energy alternatives.

This commitment, coupled with the successful development of alternative sources of western energy, should cancel the planned second strand of the Siberian pipeline project (would by itself eliminate approximately 20% of total projected Soviet merchandise hard currency export earnings in the 1990s -- about \$14 billion foregone annually). Western energy security will be greatly enhanced. (U)

-- The President has informed his Allied counterparts that he fully expects the urgent work program called for in the agreement to produce in the next months firm commitments in each of the key areas that would form the basis of common policies. The coming Williamsburg economic summit will serve as a benchmark for the attainment of concrete results. (U)

-- There is no doubt that Soviet and Polish authorities view this multilateral framework agreement as considerably more restrictive and costly to their interests over the long-term than the unilateral Poland-related measures. The imminent release of Lech Walesa may be a signal that the President's resolve is being responded to with a significant step toward reconciliation. (U)

-- Finally, Western taxpayers will be the ultimate beneficiaries over time of our efforts to curtail the massive Soviet hard currency earnings from a second strand of the Siberian pipeline and incremental deliveries on the first strand which would further fuel their unrelenting arms build-up. (U)

CONFIDENTIAL**CONFIDENTIAL**